# Testimony Regarding Free Trade Agreement of the Americas (FTAA)

**By the**

## National Cattlemen's Beef Association

**to the**

## House Agriculture Committee

## The Honorable Larry Combest, Chairman

**Presented by**


## Wythe Willey,
## NCBA President Elect


## May 23, 2001

Producer-directed and consumer-focused, the National Cattlemen's Beef Association is the trade association of America's cattle farmers and ranchers, and the marketing organization for the largest segment of the nation's food and fiber industry.

Chairman Combest, Ranking Member Stenholm and the Members of the House Agriculture Committee,

The National Cattlemen's Beef Association appreciates the opportunity to present to you and the House Agriculture Committee our views on the Free Trade Agreement of the Americas (FTAA). I am Wythe Willey president elect of the NCBA. I am a rancher and resident of Cedar Rapids, Iowa.

**Industry Background**

Beef producers are constantly competing for a larger share of the domestic market. Moreover, our "home" market contains less than five percent of the world's population and we are becoming increasingly dependent on the rest of the world to buy our products and ensure economic growth. The US beef industry has worked hard to promote beef exports which now account for more than 12 percent of the value of wholesale beef sales. On a tonnage basis, we export nearly 10 percent of what we produce.

NCBA fully understands the importance of maintaining equitable trade agreements because of our industry's unique position as an importer as well as an exporter. As an industry, we have worked to expand exports of beef and beef variety meats from approximately $500 million dollars 20 years ago to $3.6 billion today -- more than a seven-fold increase. During 2000, the United States became the world's largest beef exporter as US exports of beef and beef variety meats established new records of 1.244 million metric tons valued at $3.6 billion. Compared to 1999, exports of beef and beef variety meats during 2000 increased of 7.7 percent on a volume basis and 10.6 percent on a value basis.

The US is also the world's largest beef importer of beef and beef variety meats. During 2000, we imported 1.025 million metric tons valued at nearly $2.49 billion for a trade surplus of more than $1.1 billion..

NCBA and the beef industry understand the importance of trade in the overall context of foreign policy. We fully agree with the three principal reasons articulated in Ambassador Zoellick's Overview statement on the 2001 trade agenda as to why further trade liberalization is important to the American people:

?? Expanded trade -- imports as well as exports -- improves the well-being of Americans.
?? Economic freedom creates habits of liberty that in turn create expectations of democracy.
?? Expanded trade affects our nation's security.

The US beef industry has witnessed firsthand the value of market-opening trade agreements. As a direct result of NAFTA and related political reforms, Mexico's economy has grown and disposable income has increased among an expanding middle-class. US beef exports to Mexico have increased five-fold from $116.3 million in 1993 when NAFTA was approved to $596.2 million in 2000.

This growth in North American trade has resulted in lingering irritants, however. There has been an ongoing series of border inspection issues, most recently legislation in Mexico that would require re-inspection of US beef in facilities on the Mexican side of the border. These issues provide examples that anti-trade forces can point to when opposing additional trade agreements.

Issues with our NAFTA trading partners have not been limited to the Southern border. The Canadian government has made progress in opening the border to US feeder cattle and a record 209,480 US cattle were exported to Canada during the October 1, 2000 through March 31, 2001 marketing year. Relations between the US and Canada are much improved compared to the border blockades and protests of a couple of years ago. But there is still room for improvement. The Canadian government should increase the number of states eligible to ship cattle using the new protocol and grant year-round access from states that are eligible to participate.

**Environmental Regulations and Dumping Definition:** The US beef industry continually faces the challenge of increasing costs of complying with a host of environmental regulations. Cattlemen support maintaining a wholesome environment -- after all we are talking about the environment where we and our families live. However, US cattlemen face ever-tightening government environmental standards and regulations that producers in other major beef producing countries do not face. NCBA would support addressing environmental issues in future negotiations if the objective is to raise environmental standards in other countries up to US levels -- some type of environmental equivalency patterned after current veterinary equivalency agreements. Monetary incentives, off-setting tariff credits in terms of more favorable terms for countries with more stringent standards or other non-trade restricting mechanisms may deserve consideration during future negotiations.

As long as other countries maintain production subsidies, export subsidies and tariffs at levels higher than those in the US, NCBA will support maintaining equitable beef quotas and tariffs. Maintaining strong trade laws is like supporting motherhood and apple pie and no one supports weakening existing trade laws. We do however have concerns about some statements that sensitive issues should not even be discussed in the context of comprehensive multilateral trade negotiations. Any trade agreement that might include changes in current trade laws will still have to be considered on the merits of the overall package. Congress will ultimately have authority to accept or reject the final product of negotiations. In that context we strongly question calls for prohibiting discussion of trade remedy laws in upcoming trade negotiations before those negotiations even begin. We will work to develop alternative definitions during future negotiations to define "dumping" more consistent with the practical realities of a cyclical, perishable, agricultural commodity.

**FTAA:** NCBA has been reluctant to support expanded FTAA negotiations in light of the above political and industry climate. We have felt all along that problems with NAFTA should be resolved and markets should be allowed to come into equilibrium before additional countries were added to the mix. As discussions continue towards an FTAA by 2005, NCBA's position is clear. We believe that agricultural issues should be addressed in the context of comprehensive multi-lateral trade negotiations and we do not support including agriculture as a part of a regional FTAA agreement. Our position is further refined for the following reasons.

The United States is currently the least restricted and largest beef import market in the world purchasing 15 percent more beef than the second largest importer, Japan. The United States also became the largest beef exporter during 2000, but we could export much more if other countries played by the same rules as the US and barriers to access were eliminated. Beef markets in other developed countries remain virtually closed to US beef (EU) or protected by relatively high tariffs (Japan and Korea).

NCBA and the US beef industry support the broad long-term philosophical objectives of trade liberalization. We will not, however, unilaterally increase access to the US beef market without comparable increases in other markets for US beef. Access to the US beef market is already relatively unrestricted and there is a perception throughout the US industry that we have granted more access than we have gained during past negotiations. US negotiators must send a strong, clear and irrevocable message to Cairns Group and FTAA trading partners -- who are major current and potential US beef suppliers. NCBA will not support increased access to the US beef market until meaningful access and tariff reduction is achieved in other major beef importing countries. Because many FTAA countries are major beef exporters and many major beef importers are in Asia and Europe, this objective can only be achieved through comprehensive multi-lateral WTO negotiations -- not regional FTAA negotiations.

We expect FTAA and Cairns trading partners to stand shoulder to shoulder with the US when we negotiate future multi-lateral agreements for access in Europe and tariff reduction in Asia. Too often in the past the US has expanded access to beef from Cairns and FTAA countries only to watch our interests be undermined in subsequent negotiations as these same countries cut side deals to gain access for their beef while the US was left with restricted access. No more!

**Science-Based Regulations to Protect US Herd Health:** We must ensure that science remains the only basis for resolving sanitary and phytosanitary issues. Given the foreign animal disease outbreaks in Europe and South American countries and the heightened focus on animal health and food safety , these issues can not be over-emphasized in the current global trade setting.

NCBA has become increasingly concerned that the expansion of trade with many countries is increasing the risk of reintroduction into the United States of foreign animal diseases like Foot and Mouth Disease (FMD). FMD is a deadly virus, not only of beef cattle but many other animals and wildlife. It spreads rapidly. A case of the disease in the United States would eliminate many US export markets in the short term and cost livestock producers and the government literally billions of dollars to control and eradicate. Extreme care must be taken to prevent the introduction of FMD into the United States either from the importation of livestock, or meat and meat products from countries that have the disease or who are in the process of eradicating it.

FMD has been eradicated from North America, including all Central American countries and an animal-free zone (the Darien Gap) is maintained at the southern tip of Panama to ensure that FMD is not transmitted from South American countries. Other than one imported animal in Canada, no cases of BSE have been identified in the Western Hemisphere and all Western Hemisphere and Cairns countries have implemented restrictions on imports of meat and animals and the feeding of animal-based proteins comparable to or stricter than the US.

From mid-1997 until mid-2000 Argentina and Uruguay were rated FMD-free. However, both countries have since began vaccinating livestock because of reoccurring FMD outbreaks and both countries have voluntarily suspended shipments of fresh and frozen beef to the US and Canada. Officials from Argentina were less than forthcoming about new cases of FMD during late 2000 through March 2001. In fact, some would say that during that time they outright deceived USDA officials about the herd-health status in Argentina.

Brazil and Venezuela have vaccination programs in place but continue to have cases of FMD and several other South American countries such as Bolivia, Columbia and Paraguay continue to have major outbreaks of FMD. Cross-border disease exposure continues to be a problem in South America and FMD cases will likely continue to occur until a comprehensive hemispheric program is adopted and the disease is eradicated from the continent.

In spite of the questionable and ever-changing status of herd health in South America, many major beef producing and potential exporting countries there continue to press for expanded access to the US beef market. Argentina has at times requested an increase to 100,000 metric tons from the current 20,000 metric ton quota for fresh and frozen beef. In spite of science-based indications that such access would be contrary to US herd-health, Brazil has at times attempted to use political leverage to negotiate assess to the US market for fresh and frozen beef.

NCBA's message to these countries is pure and simple:

> **Clean up your act. Adopt an inclusive hemispheric program and eradicate FMD throughout South America. Become part of the world community of responsible producers of healthy animals. Join us in negotiating access in Europe and tariff reduction in Asia and the access to the US market that you have so long sought will be forthcoming. Continue on the current path of marginal herd health and negotiated side deals with the EU and we are indefinitely ambivalent as to granting you increased access to our market.**

NCBA and the US beef industry have witnessed the huge economic and social costs as FMD and BSE have devastated the European beef industry. We are determined that the North American industry will not be exposed to the same fate. Before any FTAA is approved, NCBA and the US beef industry must be assured that APHIS will have in place and in use a set of measures to ensure that FMD will not be introduced into the United States. USDA must also have in place a clearly documented emergency response plan in the event such an introduction should occur.

Mr. Chairman, as listed in our attached comments, there are other FTAA beef trade issues including tariffs, minimal production and export subsidies and technical barriers to trade (grading and inspection issues) that could be resolved during FTAA negotiations. These issues are relatively secondary to the primary issues of protecting the US herd health and increasing access to Asian and European beef markets that can only be achieved through multi-lateral negotiations. We look forward to working with your committee and providing further input as FTAA negotiations progress to assure that dual objectives of maintaining scientific based US herd health protection and increased opportunity for international trade are achieved.

### Conclusion

Mr. Chairman, I would like to also submit for the record a copy NCBA's February 7, 2000 comments regarding an FTAA. Those comments spell out many of the regional issues of concern including tariff levels, production subsidies and grading requirements that must be addressed during FTAA negotiations. Thank you again and I look forward to continuing this dialogue as the process unfolds. I would be happy to answer any questions.

## ATTACHMENT

February 7, 2000
Gloria Blue, Executive Secretary,
Trade Policy Staff Committee,
Office of the U.S. Trade Representative,
Room 122, 600 Seventeenth Street, N.W.,
Washington, DC 20508.

RE: USTR Request for Public Comment Regarding Negotiations Toward a Free Trade Area of the Americas (FTAA)

Dear Ms. Blue:

Initiated in 1898, the National Cattlemen's Beef Association (NCBA) is the marketing organization and trade association for America's one million cattle farmers and ranchers. With offices in Denver, Chicago and Washington D.C., NCBA is a consumer-focused, producer-directed organization representing the largest segment of the nation's food and fiber industry.

NCBA appreciates the opportunity to submit comments to the interagency Trade Policy Staff Committee (TPSC), which is seeking public comment with respect to all aspects of negotiations as part of its efforts to develop proposals and positions concerning toward the FTAA.

**Importance of Trade:** Livestock producers are constantly competing for a larger share of the domestic market. Moreover, our "home" market contains less than five percent of the world's population and our greatest potential for expanding market share is in international trade. As the beef industry continues to improve its efficiency, productivity and quality of its commodity, we are becoming increasingly dependent on the rest of the world to buy our products and ensure economic growth. The US beef industry, has worked hard to promote beef exports which now account for more than 12 percent of the value of wholesale beef sales. On a tonnage basis, we export nearly 10 percent of what we produce.

As this reliance on international markets has grown, the effects of political and economic strife in our key export markets have contributed to volatility of U.S. cattle prices. The 1998 calendar year -- a year of recession in most Asian markets -- was the first time that more than one million metric tons of US beef and beef variety meats have been exported. Compared to 1997, exports of beef and beef variety meats during 1998 increased of 4.75 percent on a volume basis but declined 5.44 percent on a value basis as US beef prices declined and international customers shifted to a lower-price mix of beef products.

As an industry, we have worked to expand exports of beef and beef variety meats from approximately $500 million dollars twenty years ago to approximately $3 billion today -- a six-fold increase. During the first eleven months of 1999, beef exports increased 8.1 percent on a volume basis and nearly 13.5 percent on a value basis compared to the same time in 1998. The value of US beef and beef variety meats exported during the first eleven months of 1999 totaled more than $2.914 billion. This progress is encouraging, but also highlights the importance of taking advantage of every opportunity to move beef into international trade.

**Political Climate and Industry Concerns:** There is a perception among many in agriculture that past GATT and WTO rounds often traded US agricultural priorities away and left US crop and livestock producers facing high tariffs and a host of non-tariff trade barriers in foreign markets while US agricultural markets were liberally opened to imports. Continued failure of the EU to live up to its obligations as a full WTO member and lift the ban on US beef is often cited as an example of how the WTO process fails to work.

One of the underlying premises of the 1996 “Freedom to Farm Bill” was that aggressive pursuit of growing export markets would be a critical strategy to replace the safety net of traditional farm programs. NCBA firmly believes this to be true. Eliminating trade barriers is critical to the success of any international trade negotiations.

Despite the overwhelming evidence that the international market must be the focal point for market growth and economic vitality, there is a growing protectionist sentiment at the grassroots level. This sentiment is the result of increased questioning at state and local levels about the impacts of trade on individual agricultural producers and increased skepticism about the willingness of federal officials to aggressively negotiate agreements favoring U.S. interests.

In addition, there is a growing lack of confidence even among "free" traders that our trading partners will live up to their obligations under negotiated agreements. Simply put, U.S. producers are tired of facing their international competition on a persistently tilted playing field. There also is a somewhat accurate perception that U.S. negotiators and regulatory agencies are more focused on developing protocols and modifying regulations to address concerns of countries seeking access to U.S. markets rather than on identifying and addressing regulations in importing countries that limit access of U.S. products.

It is clear that Congress and the Administration have not had a unified strategy to systematically attack the trade problems of US agriculture as part of the upcoming negotiations. The inability to secure approval of "fast track" continued negotiating authority prior to the Seattle Ministerial meeting is testimony to this void. Congressional leaders have often seemed more interested in forcing the opposition into a difficult vote and then playing the "blame game" for political gain than in cooperating with the Administration to pass meaningful trade legislation that will benefit agriculture.

There is plenty of fault to go around. Breakdown of the Seattle talks and attempts to patronize varied non-trade related special interests has further contributed to concerns about whether agriculture's interests will be traded away for political expediency. And finally, reluctance of the administration to utilize the most hard-hitting retaliation strategies, including the so-called carousel approach, against the European Union in the beef and banana cases just compounds the concerns that US negotiators are more concerned about political pressures than the interests of traditionally pro-trade injured parties.

Agricultural producers are justifiably concerned about sending a team to the negotiating table that has a more consistent track record of in-fighting among Congressional and Administrative ranks than engaging the opposition for meaningful trade liberalization. Failure of the Seattle Round means that the US must soon take the high road to expanded exports and free trade. We need a meaningful "win" on the trade front soon or the anti-trade activists will take us down the road to protectionism -- if not isolationism -- resulting in trade wars and a return to costly government supply management and price support farm programs.

NAFTA has frequently been criticized by some in the beef industry for contributing to lower U.S. cattle prices due to increased cattle imports from Canada and Mexico. The fact is that NAFTA eliminated tariffs (15-25 percent, depending on the product) on U.S. beef exports to Mexico. NAFTA was approved in December 1993. During 1994 -- the first year of NAFTA -- exports of beef and variety meats to Mexico increased nearly 47 percent in tonnage and 71.5 percent in value.

Beef exports declined during 1995 due to *peso d*evaluation, but increased by more than 70 percent during 1996. Exports of U.S. beef and beef variety meat to Mexico during 1998 increased 28.3 percent in tonnage and nearly 31 percent in value compared to 1997. Beef exports to Mexico have continued to increase this year, and at the current pace, $500 million of US beef and beef variety meats will be exported to Mexico during 1999.

This growth in North American trade has not come without controversy, however. A dumping case was filed by the Mexican cattle industry against US cattle and beef. US beef exports are currently subjected to a schedule of preliminary dumping duties ranging from zero to 275 percent depending on the product category and the individual company. The final ruling on this case is expected March 2, 2000, and NCBA is optimistic that this case will ultimately result in a ruling of no injury. In the interim, the case has resulted in unnecessary expenditure of industry resources to maintain market access and trade distortions among exporting companies. In addition there has been an ongoing series of border inspection issues, and more recently, temporary de-listing of 17 US meat and poultry processing plants. These issues have ultimately been resolved favorably for the US industry, but they provide examples that anti-trade forces can point to when opposing additional trade agreements.

Issues with our NAFTA trading partners have not been limited to the Southern border. A minority group of US cattlemen filed antidumping and countervailing duty cases against cattle imports from Canada as well as an antidumping case against cattle from Mexico. These cases ultimately resulted in rulings of no injury, but in the interim resulted in strained relations within the US beef industry and with our trading partners. Beef imports from Canada have continued to increase, although cattle imports declined during 1999. The Canadian government has made progress in opening the border to US feeder cattle with implementation and continued improvement of the Northwest project. Relations between the US and Canada are improving compared to the border blockades and protests of a couple of years ago.

**FTAA:** The United States is currently the least restricted and largest beef import market in the world purchasing 15 percent more beef than the second largest importer, Japan. The United States is also the second largest beef exporter. Beef markets in other developed countries remain virtually closed to US beef (EU) or protected by relatively high tariffs (Japan and Korea). A strong, clear and irrevocable message must be sent by US negotiators to Cairns Group and Mercosur beef exporting counties -- major US beef suppliers -- that **no** increased access to the US beef market will be forthcoming until meaningful access and tariff reduction is achieved in other major beef importing countries.

NCBA has been reluctant to support expanded FTAA negotiations in light of the above political and industry climate. Our position to date has been that problems with NAFTA should be resolved and markets should be allowed to come into equilibrium before additional countries were added to the mix. If the decision is made to continue negotiations toward an FTAA issues critical to the US beef industry must be addressed as follows:

**Use Sound Science and Protect US Herd Health:** Ensure that science remains the only basis for resolving sanitary and phytosanitary issues.

?? The US beef industry does not support opening the Sanitary/Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Agreements for further negotiation.
?? The US beef industry supports the Precautionary Approach as embodied in the Rio Declaration.
?? Food safety issues are fully covered by the Agreements on the Application of Sanitary and Phytosanitary Measures and as such the safety of agricultural products is covered within the existing rules of the SPS and TBT agreements.

Two states in the southern region of Brazil, Rio Grande do Sul and Santa Catarina, are in the final stages of eradicating Foot and Mouth Disease. On this basis, Brazil has petitioned USDA for eligibility to ship fresh and frozen boneless beef to the US from these regions. USDA has committed to conducting a comprehensive risk assessment before a proposed rule regarding the importation of fresh beef from Brazil is developed for publication. It is imperative that USDA continues to protect the health of the U.S. beef herd. USDA must assure that all conditions are met and that the necessary controls are in place so U.S. herd health is not put at risk. Indications are that this has not always been the case in other recently approved formerly FMD countries.

Fresh, chilled or frozen beef exported from Brazil Argentina and Uruguay to the United States must continue to be certified as meeting the following specifications:

?? Has not been in contact with meat from a region with greater disease risk;
?? Originates from premises where neither FMD nor rinderpest have been present during the life of any ruminants or swine slaughtered for export;
?? Originates from premises on which ruminants or swine have not been vaccinated with modified or attenuated live viruses for FMD during the lifetime of any animals slaughtered for export;
?? Must be from animals not vaccinated for other specific diseases;
?? Must be from carcasses that have been allowed to mature at 40 to 50 degrees Farenheit for a minimum of 36 hours after slaughter and have dropped to at least a pH of 5.6 or below in the loin muscle at the end of maturation;
?? Must be free of all bone, blood clots and lymphoid tissue.

NCBA has become increasingly concerned that the expansion of trade with many countries is increasing the risk reintroduction into the United States of foreign animal diseases such as Foot and Mouth Disease (FMD). FMD is a deadly pathogen, not only of beef cattle but many other animals and wildlife. It spreads rapidly. A case of the disease in the United States would eliminate many US export markets in the short term and cost livestock producers and the government literally billions of dollars to control and eradicate. Extreme care must be taken to prevent the introduction of FMD into the United States either from the importation of cattle, beef or beef products from countries that have the disease or who are in the process of eradicating it.

Before any FTAA is approved, NCBA and the US beef industry must be assured that APHIS will have in place and in use a set of measures to ensure that FMD will not be introduced into the United States. NCBA must be assured that APHIS has in place and is verifying utilization of efforts to prevent introduction -- and that APHIS is not just reviewing paperwork. Last but not least, USDA must have in place a clearly documented emergency response plan in the event such an introduction should occur.

**Tariff Reduction:** Establish tariffs near single digit levels at the end of the next scheduled reduction and establish a target date for all tariffs to be set at zero.

?? The agreement with China establishes an aggressive target for beef tariffs at 12 percent by 2004. If China can reduce tariffs to 12 percent so can the EU, Japan and Korea.
?? The US industry will accept tariff reduction equivalent to reductions in all other countries, including the other primary beef importing countries.
?? Eliminate all in-quota beef tariffs.
?? Brazil -- current rate for beef: 13 percent
?? Chile -- current rate for beef: 11 percent
?? Columbia -- cattlemen in Columbia are supporting variable import duties for beef through the Andean Price Band system to restrict beef imports.

**Meaningful Minimum Access:** Expand existing quotas and tariff rate quotas (TRQs).

?? Any increases in US beef TRQs for FTAA trading partners must be accompanied by equivalent US minimum access in the EU quota for high quality beef.

**Export Subsidies:** Eliminate all export subsidies.

?? The US beef industry supports a zero-for-zero proposal to eliminate export credit programs and export subsidies.
?? Export market development programs (as funded with MAP and matching industry funds) are not to be considered as having a subsidy component.

- ?? International food aid disciplines referred to in Article 10.4 of the Agreement on Agriculture shall be preserved.
- ?? Argentina provides an export credit to beef and other products through a tax rebate scheme allowing exporters to receive a refund of between 2.5 and 8 percent of taxes paid depending on the product category.
- ?? Brazil offers tax and tariff incentives to promote exports through exemptions of withholding taxes and other tax exemptions.

**Production Subsidies:** Eliminate domestic production-distorting subsidies.

- ?? The US beef industry supports comparable restrictions on US agricultural subsidies.
- ?? Argentina pays 25 percent of the interest rate charged for credit used for cattle production.

**Import Licensing Schemes:** Eliminate restrictive import licensing schemes.

- ?? Brazil imposes licensing and other bureaucratic requirements including import financing rules to importers that limit import volumes.

**Grading Requirements:** Eliminate requirements in some countries that all beef sold through commercial channels carry a domestic grade.

- ?? Chile requires that all beef sold through commercial channels carry a Chilean grade. Talks between USDA and Chile have failed to reach agreement that Chile will recognize USDA grades as equivalent to Chilean grades.

<u>The U.S. must hold its trading partners to commitments agreed to in previous trade agreements or risk losing public support for additional trade negotiation authority.</u> NCBA appreciates the initiatives that have been undertaken to gain access to international markets and to resolve lingering issues that restrict the ability of the U.S. beef industry to offer its products to international consumers. We expect equal consideration to be given to industry concerns about an inequitable playing field and exposure of the US herd to international health risks.

The National Cattlemen's Beef Association is prepared to participate in the process of evaluating critical trade issues within the beef industry. NCBA looks forward to providing additional input as the U.S. addresses other trade issues, including PNTR for China and accession of China to the WTO, resolving a growing list of access issues with the European Union and approving legislation to provide continuing authority for negotiating additional trade agreements. Thank you for the opportunity to present this information.

Sincerely,

Dana Hauck, Chairman
NCBA International Markets Committee and
Agricultural Trade Advisory Committee Member